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Tobacco and Products

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Report Highlights:

Argentine tobacco production for MY2002 is estimated at a record 127,500 metric tons. This is a result of producers expanding area and excellent weather. Exports are also projected to become a record with a total volume of 75,700 metric tons. Flue cured will account for more than half of total foreign sales, followed by burley and dark air and sun cured tobacco. Tobacco domestic consumption is expected to fall as result of declining cigarette sales. As result of the recent strong devaluation of the local currency, which improved competitiveness, Argentine tobacco exports are expected to increase in the next few years, while domestic demand will remain quite flat.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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SECTION I. SITUATION AND OUTLOOK

Argentine total tobacco exports for MY2002 are projected at a record 75,700 metric tons (MT), slightly higher than the previous year. This is a result of the largest output ever and a relatively stable domestic use of tobacco. Producers planted more than recommended by dealers and cigarette processors, and yields were very good because of excellent weather including no losses because of hail. All excess tobacco will some way or another be exported.

Of total exports in MY2002, more than half will be flue cured which will go primarily to Paraguay and the United States. Burley exports will account for approximately 40 percent of the total, with the United States, Belgium and Germany as the main markets. Dark air and sun cured tobacco exports are smaller in volume and go primarily to the United States, Uruguay and France.

Despite the strong devaluation of the local currency in the first months of 2002, going from an exchange rate of 1:1 against the dollar to 3:1, Argentine FOB prices are not expected to decrease significantly during MY2002 crop. By now almost the entire crop has been sold. Tobacco dealers invested large sums in advance input programs. This debt is normally discounted at the time producers deliver their tobacco at the processing plants. With the devaluation, the companies and the producers agreed to maintain the debt in pesos, but instead of paying to the producers the same price in dollars for their tobacco, they are paying less in dollars to offset the losses from the advance input programs. In addition, Argentine tobacco exports have seen a reduction of the export rebate from 5.4 percent to 2.7 percent and a new export tax of 10 percent.

Based on official data, FOB prices in MY2001 were as follows:

Flue Cured		Country	FOB \$/Kilo
	Strip	All	2.62
		United States	3.16
		Paraguay	2.04
		Germany	3.04
Burley			
	Strip	All	3.16
		United States	3.35
		Belgium	3.23
		Germany	3.46

The quality of the MY2002 crop is reported to be average to somewhat better than last year's. Tucuman's burley has improved its quality (with exports primarily to Paraguay, Russia and Turkey). Misiones' burley, considered of excellent quality is very demanded by the United States and the EU.

Many of the inputs utilized for tobacco production are imported or have imported ingredients. Therefore most prices of fertilizers, pesticides, seeds, plastic covers, floating systems, etc. are dollarized. On the other hand, taxes, hand labor, services, are denominated in pesos, which will reduce the cost of production in dollar terms and thus making exports more competitive. This improvement will be in effect in MY2003 as inputs in the next crop will be paid with the full effect of the devaluation. Some sources state that the price for Argentine strip should become very close to that of Brazil's. However, it is doubtful we will see a large increase in exports if prices of Argentine product are not below Brazil's huge output.

There are no new official policies which affect production, marketing and trade. The Special Tobacco Fund (STF), which pays producers part of the price of their tobacco with money collected from an excise tax, continues to operate but with problems. The Federal Government has severe debt problems and is seeking to cut this sum of money which totals approximately 180 million pesos a year (45 million pesos is still owed from last year, which many doubt will ever be paid). However, the seven tobacco producing provinces have a strong lobby in congress and were able to pass a law which separates the STF from the Government's general budget. This should help to secure the fund's money in the future.

SECTION II. STATISTICAL TABLES

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	64000	64000	60000	60000	0	65500
Beginning Stocks	40800	40800	47800	47800	43500	26400
Farm Sales Weight Prod	114500	114500	101000	98110	0	127500
Dry Weight Production	91700	91700	81000	81300	0	106000
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	4500	4500	4000	2800	0	2000
TOTAL Imports	4500	4500	4000	2800	0	2000
TOTAL SUPPLY	137000	137000	132800	131900	43500	134400
Exports	55400	55400	57500	73700	0	75700
Dom. Leaf Consumption	29300	29300	27800	29000	0	29300
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	4500	4500	4000	2800	0	2000
TOTAL Dom. Consumption	33800	33800	31800	31800	0	31300
TOTAL Disappearance	89200	89200	89300	105500	0	107000
Ending Stocks	47800	47800	43500	26400	0	27400
TOTAL DISTRIBUTION	137000	137000	132800	131900	0	134400

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Flue Cured				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	31300	31300	27000	27000	0	32500
Beginning Stocks	20900	20900	29050	29050	28450	15180
Farm Sales Weight Prod	66000	66000	54400	54400	0	71700
Dry Weight Production	57100	57100	47000	47000	0	62100
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	2400	2400	2000	930	0	500
TOTAL Imports	2400	2400	2000	930	0	500
TOTAL SUPPLY	80400	80400	78050	76980	28450	77780
Exports	31550	31550	31000	42800	0	43000
Dom. Leaf Consumption	17400	17400	16600	18070	0	18200
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	2400	2400	2000	930	0	500
TOTAL Dom. Consumption	19800	19800	18600	19000	0	18700
TOTAL Disappearance	51350	51350	49600	61800	0	61700
Ending Stocks	29050	29050	28450	15180	0	16080
TOTAL DISTRIBUTION	80400	80400	78050	76980	0	77780

PSD Table						
Country	Argentina					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	23000	23000	22500	22500	0	26500
Beginning Stocks	13300	13300	15900	15900	15000	10120
Farm Sales Weight Prod	39000	39000	36000	35800	0	47600
Dry Weight Production	29400	29400	27200	29300	0	39000
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	1000	1000	1000	520	0	300
TOTAL Imports	1000	1000	1000	520	0	300
TOTAL SUPPLY	43700	43700	44100	45720	15000	49420
Exports	16600	16600	18500	26000	0	30000
Dom. Leaf Consumption	10200	10200	9600	9080	0	9200
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	1000	1000	1000	520	0	300
TOTAL Dom. Consumption	11200	11200	10600	9600	0	9500
TOTAL Disappearance	27800	27800	29100	35600	0	39500
Ending Stocks	15900	15900	15000	10120	0	9920
TOTAL DISTRIBUTION	43700	43700	44100	45720	0	49420

Export Trade Matrix			
Country	Argentina		
Commodity	Tobacco, Unmfg., Total		
Time period	MY2001	Units:	Metric Tons
Exports for:	2001		2002
U.S.	16730	U.S.	
Others		Others	
Paraguay	13570		
Germany	8505		
Belgium	6982		
Brazil	4278		
Russi	3892		
France	3462		
Uruguay	2709		
UK	1676		
Italy	1410		
Netherlands	1032		
Total for Others	47516		0
Others not Listed	9454		
Grand Total	73700		0

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Production

Argentine total planted area to tobacco for MY2002 is forecast at 65,500 hectares. Dealers and local cigarette manufacturers recommended that producers plant a similar area to the previous crop. However, because tobacco is still the best alternative, and the need of a good scale of production (especially in Salta and Jujuy), producers increased area by 9 percent. This, added to the excellent weather in all producing provinces, and the fact that hail, which normally sweeps a couple of million kilos a year, was nonexistent, will produce a record crop of 127,500 MT (FSW).

Product	Area (ha)	Area (ha)	Area (ha)	Prod (mt)	Prod (mt)	Prod (mt)
	MY00	MY01	MY02	MY00	MY01	MY02
Flue cured	31,300	27,000	32,500	66,000	54,400	71,700
Burley	23,000	22,500	26,500	39,000	35,800	47,600
DASC	9,000	10,000	5,700	8,000	6,760	6,900
Light Air c.	700	500	800	1,500	1,150	1,300
Total	64,000	60,000	65,500	114,500	98,110	127,500

Dealers, through cooperatives, and local cigarette manufacturers advance many inputs to the producers which pay back with tobacco at harvest. Producers in MY2002 have made good money, especially because of high yields and good quality. As an example, flue cured producers had an average cost of production of 1.80 pesos per kilo, while they will receive on average 2.0 pesos from the processor plus 0.65 pesos from the STF as price support plus 0.55 pesos more from the fund as what are claimed to be "green box" payments not limited to production (the STF help will be received throughout the year). But still many producers drag debts from previous crops. The following table shows prices expected for MY2002 compared to those of MY2001:

Province	\$ Buyer	\$ STF	\$ Total	\$ Buyer	\$ STF	\$ Total	Dif. Total %
FC Salta	1.18	0.84	2.02	2.00	0.65	2.65	31.2
FC Jujuy	1.17	0.83	2.00	1.98	0.65	2.63	31.5
Bly Misiones	1.20	0.84	2.03	1.92	0.64	2.56	26.1
Bly Tucuman	0.92	0.74	1.66	1.25	0.64	1.89	13.8

Until now, tobacco production was handled by the two large local cigarette processors and the international dealers through the local cooperatives. However, this year one of the large cigarette companies sold its leaf operation to a dealer, which for the next four years will supply them with tobacco. By doing this the cigarette company lowers the risk of operating in an unstable economy, and reduces dramatically their exposure with tobacco producers.

Some companies are shifting from traditional seedling production to floating systems to eliminate the use of methyl bromide. Approximately 40 percent of the entire country is currently using the new system. In Salta and Jujuy companies are financing the conversion of curing barns from a direct system to an indirect heat exchanger system. There are very few mechanical transplants already working in Salta and Jujuy, but its expansion will be slow.

Planted area for MY2003 is projected to be at least as much as this year. If weather allows, production will probably increase somewhat. Local companies so far are not producing biotech tobacco varieties.

Consumption

Total domestic use of tobacco for MY2002 is forecast at 31,300 MT, slightly lower than in the previous year. Due to the economic recession and economic crisis, cigarette consumption is falling (7 percent in 2001 and 3.7 percent in the first three months of 2002). However, because of the devaluation, the huge smuggling of cigarettes, which last year was calculated roughly at 22 percent of the market, will fall significantly as imports are not as attractive any more. This should give local cigarette processors room to sell more of their products.

Stocks

Although this information is not public, most contacts estimate that there will be very little tobacco left unshipped by the end of MY2002 and that cigarette processors should be close to a 10-12 month stock for their use.